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SUBJECT: SMALL U.S. FIRM FINDS HIGH-END GARMENT NICHE IN RURAL THAILAND

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Summary

¶11. RICO International is a small, U.S.-owned garment-maker in a remote corner of northern Thailand. It produces expensive hand-knit sweaters for sale in the U.S. to high-end clothiers. By staying in this high-end niche and keeping production volume low, RICO turns a profit despite competing with Chinese textile giants that produce machine-made knitwear. In a word, RICO survives because it is small, and thus is not a model to be emulated elsewhere in northern Thailand. On the other hand, RICO demonstrates how Thailand, particularly the north, has a comparative advantage when it comes to design, fashion, and quality workmanship. End Summary.

Farmers' Wives Knitting in Shade of Stilt Houses

¶12. "Since 1990 RICO Hand Knits has been providing year-round employment to nearly 2000 rice farmers' wives in northern Thailand. Knitting together in the shade of their stilt houses, RICO's hand-knit artisans provide decades of skill. RICO's sales have greatly improved the quality of their lives, preserving the native traditions of these remote villagers, keeping the knitters' families together and their communities flourishing." This marketing plug found on RICO International's website and promotional brochures is largely accurate, ConGen found during his February 26 visit to the production site. Located in the Chiang Kham district of Phayao, one of northern Thailand's poorest provinces, the American-owned RICO International has found the unlikeliest of places to turn a profit and position itself - during peak production a few years back - as the province's second-largest employer.

¶13. RICO International was created and is run by Amcit Ric Fowler, a life-long global nomad who now splits time between San Diego and Phayao. In the 1980s he found himself in Southeast Asia, buying traditionally made garments for sale at huge mark-ups in the U.S. In 1990 he transitioned to production, starting his hand-knit business in Phayao because of the skill of the local women. Production peaked in 2000, when RICO employed over 2,000 people. Today, with sales slowed due to baht appreciation and growing competition from Chinese-made machine-knitted garments, employment is about half that. RICO's sales volume in 2007 was 29 million baht (USD 906,000).

¶4. RICO blends traditional hand knitting with modern designs for sale in the U.S. to high-end specialty boutique shops. The company succeeds by staying small and frequently changing its designs. The smallest lines it produces are as few as 40 pieces; the largest are 2,000. Each garment is marketed as "a piece of wearable art with no two exactly alike." Rico's sweaters are made of 100% cotton string bought from Rama Textiles in Bangkok, which imports its cotton from the U.S. and dyes it locally. RICO does its own designing, employing a Bangkokian designer who travels frequently to New York and California. Samples of his designs are then knitted by RICO's small design team. In the next step, the samples are put into small bags with cotton yarn and other materials, and then distributed for outsource production to a network of (now) about 1000 local women. The finished garments are returned to the RICO "factory," where another 90 employees handle quality control and packaging.

¶5. Upon completion, the garments are trucked one hour to Chiang Rai, and then shipped to the U.S. by air (via Bangkok) by the U.S. firms Federal Express and United Parcel Service. Fowler noted that these firms have significantly improved their logistics since he first started production, and that other shipping firms such as DHL and Emery are also becoming more active in the region.

A Safe Niche Among Chinese Giants

¶6. Fowler said business was great up until the end of the 1990s, while the U.S. economy was booming. Since then his production and employment have declined, largely due to tough competition from Chinese textile giants that produce machine-made knitwear. These Chinese garments are of

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increasingly good quality, and are getting harder to distinguish from true hand-knit pieces. Only the most discerning shoppers can tell (or care about) the difference, Fowler said, and are willing to pay (for example) \$60 for a hand-knit sweater instead of \$25 for a similar machine-knit piece. Thus Fowler limits his production and sells only to high-end boutique stores (RICO also has a retail website). Chinese producers, on the other hand, dominate sales of garments to U.S. big-box retailers like Wal-Mart and Target. Fowler noted that his labor costs are about one-third higher than those of his Chinese competitors.

¶7. RICO is safe in this niche, Fowler said, and cannot realistically venture outside it. "We need to keep hand-knitting or we won't last long against the Chinese." As a cautionary tale, he mentioned another small hand-knit company in Chiang Rai province that ventured into machine-made garments and then quickly folded. RICO does, however, produce about one quarter of its garments using hand-operated loom machines, though even in these cases the trim is hand-knit. This speeds production considerably: a hand-loom machine can produce up to eight garments per day, compared to one garment every day-and-a-half to two days for a piece that is 100% hand-knit. Fowler pointed out that RICO uses only ten of these machines, whereas one large producer in Shanghai has 8,000 of them.

Local Authorities More Hindrance Than Help

¶8. Local Thai economic authorities have been more hindrance than help, Fowler reported. The northern regional office of the Board of Investment was not helpful in getting RICO started, since the company's non-use of machinery meant it did not comply with BOI support criteria. As a result, RICO had to find a Thai partner and register as a Thai company, limiting U.S. shareholding to 49%. Fowler also carped about hassles with

local tax authorities, though was vague about specifics. As he described it, he and the tax authorities disagree about defining RICO's profit margins. Fowler said he pays taxes in the U.S. because that is where RICO's sales are. He wishes to avoid double taxation, so every year he and his accountant end up sitting down with Thai tax authorities to laboriously negotiate RICO's tax liability. The stakes are high, he said, given Thailand's 30% corporate tax rate. He claimed that many local businesses in Phayao have relocated to Chiang Mai because the tax and other administrative authorities there are more business-friendly.

Corporate Responsibility

¶9. RICO markets itself as a "socially conscious business for the 21st century," and backs this up with a modest scholarship fund to support university-level education for financially disadvantaged children in Chiang Kham. Every year the fund solicits each of the town's three high schools to nominate four candidates, from which one is selected to receive financial support throughout his/her university studies. Currently RICO is supporting six students in this manner.

Comment

¶10. RICO International's story is a nice one, albeit small in scale. Although the nature of its niche business does not lend itself as a model for other U.S. investors to emulate, RICO's operation does demonstrate how Thailand, particularly the north, has a comparative advantage when it comes to design, fashion, and quality workmanship.

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